

Message Text

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INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 /091 W
-----088752 062321Z /21

R 062246Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7634
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 2.

1. SUMMARY. FINANCE MINISTER CHRETIEN REMAINS CANADA'S FOREMOST OPTIMIST, INSISTING THAT REAL GNP GROWTH WILL REACH 4.5 - 5 PERCENT THIS YEAR. WRANGLE OVER CUTS IN PROVINCIAL SALES TAXES CONTINUED AS PQ REJECTED SWEETENED GOC FINANCING OFFER. DEPARTMENT STORE SALES WERE UP ONLY 4.9 PERCENT IN APRIL OVER A YEAR AGO. MERCHANDISE EXPORTS VOLUME ROSE AND IMPORT VOLUME FELL IN FIRST QUARTER. INDEX OF INDUSTRIAL CAPACITY UTILIZATION FELL. AUTO SALES ROSE IN MAY. OFFICIAL INTERNATIONAL RESERVES ROSE IN MAY (OTTAWA 2809). SHORT TERM INTEREST RATES ROSE IN WEEK. CANADIAN DOLLAR DRIFTED DOWNWARD. END SUMMARY.

2. GROWTH OUTLOOK: IN TESTIMONY BEFORE HOUSE OF COMMONS COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS, FINANCE MINISTER CHRETIEN SAID ECONOMIC GROWTH WILL REACH 4.5 TO
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5 PERCENT THIS YEAR DESPITE WEAK PRODUCTION IN FIRST QUARTER AND THAT PRELIMINARY FIGURES FOR APRIL REVEALED AN ACCELERATION OF CONSUMER SPENDING LINKED TO CUTS IN PROVINCIAL SALES TAXES. CHRETIEN'S STATEMENT MAY BE MOSTLY POLITICAL. DEPARTMENT STORE SALES WERE DOWN IN APRIL IN REAL (VOLUME) TERMS, ALTHOUGH AUTO SALES IN MAY WERE UP (SEE BELOW).

3. SALES TAX ISSUE: GOC/QUEBEC WRANGLE OVER SALES TAX ISSUE CONTINUED. LATEST GOC OFFER GIVES QUEBEC CHOICE OF (A) CDOLS 100 PER TAXPAYER CUT IN 1978 INCOME TAXES (VS CDOLS 85 PER CAPITA REBATE ON 1977 TAXES CONTAINED IN PREVIOUS GOC PROPOSAL) OR (B) CDOLS 226 MILLION TRANSFER TO PROVINCIAL GOVERNMENT (THE AMOUNT INITIALLY OFFERED FOR ENTIRE 6 MONTH PERIOD) TO FINANCE ACROSS THE BOARD PROVINCIAL SALES TAX CUT OF 2 PERCENTAGE POINTS OVER TIME REMAINING IN SIX MONTHS BEGINNING IN APRIL. PQ REJECTED OFFER (SEE QUEBEC 192) AND INDICATED IT WOULD ADVANCE A "HYBRID PROPOSAL", DEALING PRIMARILY WITH THE MECHANISM FOR TRANSFERRING THE CDOLS 226 MILLION.

4. MERCHANDISE TRADE: VOLUMES AND PRICES: PRELIMINARY STATCAN FIGURES INDICATE THAT EXPORT VOLUMES (SA) ROSE AT ACTUAL RATE OF 4.4 PERCENT IN FIRST QUARTER, WHILE IMPORT VOLUMES DECLINED BY 1.7 PERCENT. AS CANADIAN ECONOMIC GROWTH IN FIRST QUARTER WAS PROBABLY BETTER THAN GROWTH IN THE U.S., STRONG EXPANSION OF EXPORT VOLUMES REFLECTS PRIMARILY STRONG CONTINUED IMPACT ON TRADE OF CANADIAN DOLLAR DEPRECIATION. TERMS OF TRADE CONTINUED TO DETERIORATE IN FIRST QUARTER AS EXPORT PRICES ROSE BY 3 PERCENT; IMPORT PRICES, BY 4 PERCENT.

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INCREASED BY U.S.DOLS 157.2 MILLION IN MAY. INCREASE IN RESERVES REFLECTS GOC INTERVENTION TO MODERATE RISE OF DOLLAR ON EXCHANGE MARKETS. (SEE OTTAWA 2809)

6. ECONOMIC INDICATORS:

-- CAPACITY UTILIZATION RATE (IT&C INDEX) DECLINED TO 82.7 PERCENT IN FIRST QUARTER FROM 83.5 PERCENT IN FOURTH QUARTER 1977. INDEX IS AT ITS LOWEST POINT SINCE 1961 AND STANDS 14 PERCENT BELOW PEAK CAPACITY RATE OF 96.4 REACHED IN FIRST QUARTER OF 1974. BY SECTOR, FIRST QUARTER UTILIZATION RATES (PEAK RATES IN BRACKETS) WERE: MANUFACTURING, 83 PERCENT (96.2 PERCENT); MINING, 70.8 PERCENT (100 PERCENT); ELECTRIC POWER, GAS AND UTILITIES, 96.4 PERCENT (100 PERCENT). DECLINE IN UTILIZATION RATE ATTRIBUTABLE TO WEAK PRODUCTION TRENDS IN FIRST QUARTER AND CONFIRMS SOMBER OUTLOOK FOR PRIVATE INVESTMENT SPENDING.

-- AUTO SALES OF THE BIG FOUR MANUFACTURERS ROSE 9.2 PERCENT TO 91,720 UNITS IN MAY REVERSING DOWNWARD TREND IN SALES WHICH BEGAN LAST NOVEMBER. HOWEVER, DEPARTMENT

STORE SALES WERE CDOLS 560 MILLION IN APRIL, UP ONLY 4.9 PERCENT IN NOMINAL TERMS FROM APRIL, 1977, DESPITE IMPLEMENTATION OF SALES TAX CUTS, FAR LESS THAN THE INFLATION RATE. NOMINAL DEPARTMENT STORE SALES WERE ACTUALLY DOWN IN QUEBEC 0.8 PERCENT OVER A YEAR AGO.

-- FOOD PRICES CONTINUE TO SURGE, RISING 3.2 PERCENT IN THE FOUR WEEKS ENDING MAY 19, THE AIB REPORTED. MOST OF THE INCREASE CAME FROM HIGHER BEEF PRICES.

7. CAPITAL MARKETS: BOC CONTINUED TO KEEP TIGHT REIN ON BANKING SYSTEM DURING WEEK. INTEREST RATE ON 3 MONTH TREASURY BILLS WAS 8.20 PERCENT COMPARED WITH 8.13 PER-

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CENT PREVIOUS WEEK. IT IS ANTICIPATED THAT BOC WILL ACT SHORTLY TO INCREASE BANK LIQUIDITY TO PERMIT SMOOTH ABSORPTION OF LARGE GOC BOND ISSUE EXPECTED IN MID-JUNE.

8. EXCHANGE RATE: CANADIAN DOLLAR DECLINED SLIGHTLY IN QUIET MARKET FOR MOST OF WEEK. AMPLITUDE OF FLUCTUATIONS INCREASED ON FRIDAY AS DOLLAR OPENED AT 89.61 U.S. CENTS, FOLLOWING ITS RISE IN EARLIER TRADING ON EUROPEAN MARKETS (APPARENT CANADIAN DOLLAR PURCHASES BY USSR STATE TRADING AGENCY WERE INTERPRETED AS POSSIBLE PRECURSOR OF NEW CANADA/SOVIET WHEAT DEAL). SELLING PRESSURE DEVELOPED LATER IN DAY DRIVING DOLLAR AS LOW AS 89.30 U.S. CENTS. CLOSING RATE FOR FRIDAY, JUNE 2 WAS 89.35 U.S. CENTS, COMPARED WITH 89.53 PREVIOUS FRIDAY. DUEMLING

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA02857
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780236-0951
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780692/aaaadasu.tel
Line Count: 170
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 46096e91-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2476636
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 2.
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/46096e91-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014